

ABELARDO VALARAO, GLORIOSA VALARAO AND CARLOS VALARAO, PETITIONERS, VS. COURT OF APPEALS AND MEDEN A. ARELLANO, RESPONDENTS.

G.R. No. 130347. March 03, 1999

Ponente: PANGANIBAN, J.

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PANGANIBAN, J.:

Article 1592 of the Civil Code applies only to contracts of sale, and not to contracts to sell or conditional sales where title passes to the vendee only upon full payment of the purchase price. Furthermore, in order to enforce the automatic forfeiture clause in a deed of conditional sale, the vendors have the burden of proving a contractual breach on the part of the vendee.

The Case

Before us is a Petition for Review assailing the June 13, 1997 Decision of the Court of Appeals (CA)[1] which reversed and set aside the October 10, 1994 Decision[2] of the Regional Trial Court (RTC) of Quezon City, Branch 82. The dispositive portion of the assailed CA Decision reads:

"WHEREFORE, the decision appealed from is REVERSED and SET ASIDE, and a new one is entered (1) ordering [herein private respondent] to pay the amount of [o]ne [m]illion [o]ne [h]undred [n]inety [s]even [t]housand [p]esos (P1,197,000.00) in favor of [herein petitioners], with legal interest thereon from December 31, 1992; (2) and directing [herein petitioners] to execute in favor of [herein respondent], upon receipt of the aforesaid amount, the final and absolute deed of sale of the subject property with all the improvements."[3]

Also assailed by petitioners is the August 21, 1997 CA Resolution denying reconsideration.

The aforementioned RTC Decision, which was reversed and set aside by the CA, disposed as follows:

"WHEREFORE, premises considered, judgment is hereby rendered declaring the aforesaid Deed of conditional Sale as automatically rescinded and all payments made thereunder by the [private respondent] to the [petitioners] as forfeited in favor of the latter, by way of rentals and as liquidated damages, as well as declaring all improvements introduced on the property subject to the said Deed of Condition[al] Sale to belong to the [petitioners] without any right of reimbursement. Further, the [private respondent] and all persons claiming right under her are hereby ordered to vacate the said property and to turnover possession thereof to the [petitioners]. FINALLY, the [private respondent] is hereby ordered to pay to the [petitioners] the amount of P50,000.00 as attorney's fees and for expenses of litigation, as well as to pay the costs of the suit. The Writ of Preliminary Injunction previously issued is hereby ordered LIFTED and DISSOLVED, and the bond posted for its issuance held liable for the satisfaction of the money judgment herein made in favor of the [petitioners]."[4]

The Facts

The undisputed facts of the case as narrated by the Court of Appeals are as follows:

"On September 4, 1987, spouses Abelardo and Gloriosa Valarao, thru their son Carlos Valarao as their

attorney-in-fact, sold to [Private Respondent] Meden Arellano under a Deed of Conditional Sale a parcel of land situated in the District of Diliman, Q.C., covered by TCT No. 152879 with an area of 1,504 square meters, for the sum of THREE MILLION TWO HUNDRED TWENTY FIVE THOUSAND PESOS (P3,225,000.00) payable under a schedule of payment stated therein.

"In the same Deed of Conditional Sale, the [private respondent] vendee obligated herself to encumber by way of real estate mortgage in favor of [petitioners] vendors her separate piece of property with the condition that upon full payment of the balance of P2,225,000.00, the said mortgage shall become null and void and without further force and effect. (Item No. 3, pp. 2-3 of Deed of Conditional Sale).

"It was further stipulated upon that should the vendee fail to pay three (3) successive monthly installments or any one year-end lump sum payment within the period stipulated, the sale shall be considered automatically rescinded without the necessity of judicial action and all payments made by the vendee shall be forfeited in favor of the vendors by way of rental for the use and occupancy of the property and as liquidated damages. All improvements introduced by the vendee to the property shall belong to the vendors without any right of reimbursement. (Par. (2), Item No. 3, p. 3 of Deed of Conditional Sale).

"[Private respondent] appellant alleged that as of September, 1990, she had already paid the amount of [t]wo [m]illion [t]wenty-[e]ight [t]housand (P2,028,000.00) [p]esos, although she admitted having failed to pay the installments due in October and November, 1990. Petitioner, however, [had] tried to pay the installments due [in] the said months, including the amount due [in] the month of December, 1990 on December 30 and 31, 1990, but was turned down by the vendors-[petitioners] thru their maid, Mary Gonzales, who refused to accept the payment offered. [Private respondent] maintains that on previous occasions, the same maid was the one who [had] received payments tendered by her. It appears that Mary Gonzales refused to receive payment allegedly on orders of her employers who were not at home.

"[Private respondent] then reported the matter to, and sought the help of, the local barangay officials. Efforts to settle the controversy before the barangay proved unavailing as vendors-[petitioners] never appeared in the meetings arranged by the barangay lupon.

"[Private respondent] tried to get in touch with [petitioners] over the phone and was able to talk with [Petitioner] Gloriosa Valarao who told her that she [would] no longer accept the payments being offered and that [private respondent] should instead confer with her lawyer, a certain Atty. Tuazon. When all her efforts to make payment were unsuccessful, [private respondent] sought judicial action by filing this petition for consignment on January 4, 1991.

"On the other hand, vendors-[petitioners], thru counsel, sent [private respondent] a letter dated 4 January 1991 (Exh. `C') notifying her that they were enforcing the provision on automatic rescission as a consequence of which the Deed of Conditional Sale [was deemed] null and void, and xxx all payments made, as well as the improvements introduced on the property, [were] thereby forfeited. The letter also made a formal demand on the [private respondent] to vacate the property should she not heed the demand of [petitioners] to sign a contract of lease for her continued stay in the property (p. 2 of Letter dated Jan. 4, 1991; Exh. `C').

"In reply, [private respondent] sent a letter dated January 14, 1991 (Exh. `D'), denying that she [had] refused to pay the installments due [in] the months of October, November and December, and countered that it was [petitioners] who refused to accept payment, thus constraining her to file a petition for consignment before the Regional Trial Court of Quezon City docketed as Civil Case No. Q-91-7603.

"Notwithstanding their knowledge of the filing by [private respondent] of a consignment case against them in the Regional Trial Court of Quezon City docketed as Civil Case No. Q-91-7603, [petitioners], through counsel, sent the [private respondent] another letter dated January 19, 1991 (Exh. `F'), denying the allegations of her attempts to tender payment on December 30 and 31, 1990, and demanding that [private respondent] vacate and turnover the property and pay a monthly compensation for her continued occupation of the subject property at

the rate of P20,000.00, until she shall have vacated the same."

Ruling of the Court of Appeals

In reversing the Regional Trial Court, the Court of Appeals held that the refusal of herein petitioners "to accept the tender of payment was unjustified." Notwithstanding the stipulation in the Deed of Conditional Sale that "the rescission of the contract shall of right take place" upon the failure of the vendee to pay three successive monthly installments, the appellate court observed that a judicial demand or a notarial act was still required pursuant to Article 1592 of the Civil Code. Thus, petitioners' letter informing private respondent of the rescission of the contract did not suffice, for it was not notarized. The CA also observed that "the alleged breach of contract arising from the failure of the vendee to pay the monthly installments for October and November 1990 within the stipulated time is rather slight and not substantial, and to authorize the automatic rescission on account thereof will work injustice to the other party, who has paid a total of P2,028,000.00 out of a total obligation of P3,225,000.00. The rule is that rescission cannot be availed of as to unjustly enrich one party."

The Issues

In their Memorandum before us, petitioners raise the following issues:[5]

"I Whether the Answer [-- (a)] categorically indicating willingness to accept the amount already due if the [private respondent] would update the account, [(b)] praying that `if she fail[ed] to do so immediately, xxx the Deed of Conditional Sale be declared rescinded, pursuant to the second paragraph of Section 3 thereof, with costs against the [private respondent], [(c)] ordering the latter to vacate and turn over possession of the premises to the [petitioners], and to pay the latter attorney's fees in the amount of P50,000.00 and the expenses of litigation' [--] is tantamount to a judicial demand and notice of rescission under Art. 1592 of the Civil Code.

"II Whether the automatic forfeiture clause is valid and binding between the parties."

"III Whether the action for consignation may prosper without actual deposit [in court] of the amount due xxx [so as] to produce the effect of payment."

The Court's Ruling

The petition[6] is devoid of merit.

Preliminary Matter:

Notarial or Judicial Demand

Citing Article 1592 of the Civil Code, the Court of Appeals ruled that the petitioners' letter dated January 4, 1991, could not effect the rescission of the Deed of Conditional Sale, because the said letter was not notarized. On the other hand, petitioners argue that they made a judicial demand, which was embodied in their Manifestation filed on May 1, 1991, and Answer submitted on July 1, 1991.[7]

We believe, however, that the issue of whether the requirement of a judicial demand or a notarial act has been fulfilled is immaterial to the resolution of the present case. Article 1592 of the Civil Code states:

"ART. 1592. In the sale of immovable property, even though it may have been stipulated that upon failure to pay the price at the time agreed upon the rescission of the contract shall of right take place, the vendee may pay, even after the expiration of the period, as long as no demand for rescission of the contract has been made upon him either judicially or by notarial act. After the demand, the court may not grant him a new term."

It is well-settled that the above-quoted provision applies only to a contract of sale,[8] and not to a sale on installment[9] or a contract to sell.[10] Thus, in *Luzon Brokerage v. Maritime Building*,[11] this Court ruled that "Art. 1592 of the new Civil Code (Art. 1504 of the old Civil Code) requiring demand by suit or notarial act in case the vendor of realty wants to rescind does not apply to a contract to sell or promise to sell, where title

remains with the vendor until" full payment of the price. The Court stresses the difference between these two types of contract. In a contract to sell, " the title over the subject property is transferred to the vendee only upon the full payment of the stipulated consideration. Unlike in a contract of sale, the title does not pass to the vendee upon the execution of the agreement or the delivery of the thing sold." [12]

In the present case, the Deed of Conditional Sale is of the same nature as a sale on installment or a contract to sell, which is not covered by Article 1592. The aforementioned agreement provides:

"x x x

"Should the VENDEE fail to pay three (3) successive monthly installments or any one year-end lump sum payment within the period stipulated herein, this Deed of Conditional Sale shall be considered xxx automatically rescinded without the necessity of judicial action[,] and all payments made by the VENDEE shall be forfeited in favor of the VENDORS by way of rental for the use and occupancy of the property and as liquidated damages. All improvements introduced by the VENDEE to the property shall belong to the VENDORS without any right of reimbursement. The VENDORS and/or their agents or representatives shall have the right to enter the premises of the property and to eject the VENDEE and all persons claiming right under her therefrom with the use of reasonable force if necessary.

That upon full payment to the VENDORS of the total consideration of P3,225,000.00, the VENDORS shall immediately and without delay execute in favor of the VENDEE the final and absolute deed of sale of the property and all its improvements."

Petitioners-vendors unmistakably reserved for themselves the title to the property until full payment of the purchase price by the vendee. Clearly, the agreement was not a deed of sale, but more in the nature of a contract to sell or of a sale on installments.[13] Even after the execution of the Deed of Conditional Sale, the Torrens Certificate of Title remained with and in the name of the vendors. In rejecting the application of Article 1592 to a contract to sell, the Court held in *Luzon Brokerage*[14] that "the full payment of the price (through the punctual performance of the monthly payments) was a condition precedent to the execution of the final sale and to the transfer of the property from [the vendor] to the [vendee]; so that there was to be no actual sale until and unless full payment was made."

Main Issue:

Enforcement of the Automatic Forfeiture Clause

As a general rule, a contract is the law between the parties.[15] Thus, "from the moment the contract is perfected, the parties are bound not only to the fulfillment of what has been expressly stipulated but also to all consequences which, according to their nature, may be in keeping with good faith, usage and law." [16] Also, "the stipulations of the contract being the law between the parties, courts have no alternative but to enforce them as they were agreed [upon] and written, there being no law or public policy against the stipulated forfeiture of payments already made." [17] However, it must be shown that private respondent-vendee failed to perform her obligation, thereby giving petitioners-vendors the right to demand the enforcement of the contract.

We concede the validity of the automatic forfeiture clause, which deems any previous payments forfeited and the contract automatically rescinded upon the failure of the vendee to pay three successive monthly installments or any one yearend lump sum payment. However, petitioners failed to prove the conditions that would warrant the implementation of this clause.

Both the appellate and the trial courts agree on the following:

- The Deed of Conditional Sale provided for automatic rescission in case the vendee failed to pay three (3) successive monthly installments or any one yearend lump sum payment within the stipulated period therein.

- Each monthly installment was due at the end of the month.
- The installments for October and November 1990 were not paid.
- The private respondent-vendee, Meden Arellano, went to the house of the petitioners-vendors on December 30, 1990.
- Arellano offered to pay P48,000 (total amount of installments due in October, November, and December 1990) to Mary Gonzales, the petitioner's maid, but the latter refused to accept it upon instruction of petitioners.
- Arellano returned the next day, December 31, 1990, and insisted on paying, but again the maid refused to accept it.
- Arellano proceeded to the barangay office around 10:00 a.m. to file a case against petitioners for their refusal to accept the payments.
- Four (4) days later, on January 4, 1991, private respondents filed a Petition for Consignation.
- Despite the said petition, the money was nevertheless not deposited in court.
- Negotiations between both parties went under way, culminating in the vendee's filing a Motion to Deposit the entire balance due, which was duly opposed by the vendor, and hence was denied by the trial court.

From the foregoing, it is clear that petitioners were not justified in refusing to accept the tender of payment made by private respondent on December 30 and 31, 1990. Had they accepted it on either of said dates, she would have paid all three monthly installments due. In other words, there was no deliberate failure on her part to meet her responsibility to pay.[18] The Court takes note of her willingness and persistence to do so, and, petitioners cannot now say otherwise. The fact is: they refused to accept her payment and thus have no reason to demand the enforcement of the automatic forfeiture clause. They cannot be rewarded for their own misdeed.

Because their maid had received monthly payments in the past,[19] it is futile for petitioners to insist now that she could not have accepted the aforementioned tender of payment, on the ground that she did not have a special power of attorney to do so. Clearly, they are estopped from denying that she had such authority. Under Article 1241 of the Civil Code, payment through a third person is valid "[I]f by the creditor's conduct, the debtor has been led to believe that the third person had authority to receive the payment."

Failure to Consign the Amount Due

Petitioners also maintain that the consignation was not valid because the amount tendered was not deposited with the trial court. True, there is no showing that she deposited the money with the proper judicial authority which, taken together with the other requisites for a valid consignation,[20] would have released her from her obligation to pay. However, she does not deny her obligation and, in fact, is willing to pay not only the three monthly installments due but also the entire residual amount of the purchase price. Verily, she even filed a Motion to Deposit the said entire balance with the trial court, which however denied said motion upon opposition of the petitioners.[21]

Accordingly, we agree with the Court of Appeals that it would be inequitable to allow the forfeiture of the amount of more than two million pesos already paid by private respondent, a sum which constitutes two thirds of the total consideration. Because she did make a tender of payment which was unjustifiably refused, we hold that petitioners cannot enforce the automatic forfeiture clause of the contract.

Application of the Maceda Law

In any event, the rescission of the contract and the forfeiture of the payments already made could not be effected, because the case falls squarely under Republic Act No. 6552,[22] otherwise known as the "Maceda Law." Section 3 of said law provides:

"SEC. 3. In all transactions or contracts involving the sale or financing of real estate on installment payments, including residential condominium apartments but excluding industrial lots, commercial buildings and sales to tenants under Republic Act Numbered Thirty-eight hundred Forty-four as amended by Republic Act Numbered Sixty-three hundred eighty-nine, where the buyer has paid at least two years of installments, the buyer is entitled to the following rights in case he defaults in the payment of succeeding installments:

"(a) To pay, without additional interest, the unpaid installments due within the total grace period earned by him, which is hereby fixed at the rate of one month grace period for every year of installment payments made: Provided, That this right shall be exercised by the buyer only once in every five years of the life of the contract and its extensions, if any.

"(b) If the contract is cancelled, the seller shall refund to the buyer the cash surrender value of the payments on the property equivalent to fifty percent of the total payments made and, after five years of installments, an additional five percent every year but not to exceed ninety percent of the total payments made: Provided, That the actual cancellation of the contract shall take place after thirty days from receipt by the buyer of the notice of cancellation or the demand for rescission of the contract by a notarial act and upon full payment of the cash surrender value to the buyer.

"Down payments, deposits or options on the contract shall be included in the computation of the total number of installments made."

Hence, the private respondent was entitled to a one-month grace period for every year of installments paid, which means that she had a total grace period of three months from December 31, 1990. Indeed, to rule in favor of petitioner would result in patent injustice and unjust enrichment. This tribunal is not merely a court of law, but also a court of justice.

WHEREFORE, the Petition is DENIED and the dispositive portion of the appealed Decision of the Court of Appeals is hereby AFFIRMED. The CA's discussion on the need for judicial or notarial demand is MODIFIED in accordance with this Decision. Costs against petitioners.

SO ORDERED.

Romero, (Chairman), Purisima, and Gonzaga-Reyes, JJ., concur.
Vitug, J., on official business abroad.

[1] Seventeenth Division composed of the Chairman and ponente, J. Fermin A. Martin Jr.; and the members, JJ. Ruben T. Reyes and Omar U. Amin, concurring.

[2] Penned by Judge Salvador C. Ceguera.

[3] CA Decision, p. 18; rollo, p. 47.

[4] RTC Decision, p. 13; rollo, p. 72.

[5] Petitioners' Memorandum, p. 9; rollo, p. 195.

[6] The case was deemed submitted for resolution on November 19, 1998, when this Court received the private respondent's Memorandum. Petitioners' Memorandum was filed earlier, on November 12, 1998.

- [7] Petitioners' Memorandum, p. 10; rollo, p. 196.
- [8] Tolentino, Commentaries and Jurisprudence on the Civil Code of the Philippines, Vol. V, 1992 ed., p. 138. See also Vitug, Compendium of Civil Law and Jurisprudence, 1st ed., pp. 433-434.
- [9] Roque v. Lapuz, 96 SCRA 741, March 31, 1980; Caridad Estates v. Santero, 71 Phil. 114, December 19, 1940.
- [10] Manuel v. Rodriguez, 109 Phil. 9, July 27, 1960; Albea v. Inquimboy, 86 Phil. 476, May 29, 1950; Joseph & Sons Enterprises, Inc. v. Court of Appeals, 143 SCRA 663, August 29, 1986; Alfonso v. Court of Appeals, 186 SCRA 400, June 8, 1990; Adelfa Properties, Inc. v. Court of Appeals, 240 SCRA 565, January 25, 1995; Ayala y Compania v. Joseph Arcache, 53 Off. Gazette, January 31, 1956; Quibir v. La Orden, 49 Off. Gazette 4857, July 15, 1953.
- [11] 46 SCRA 381, August 18, 1972, per Reyes, J.B.L., J.
- [12] Dawson v. Register of Deeds of Quezon City, GR No. 120600, September 22, 1998, per Panganiban, J.; Coronel v. Court of Appeals, 263 SCRA 15, October 7, 1996; Salazar v. Court of Appeals, 258 SCRA 317, July 5, 1996; Jacinto v. Kaparas, 209 SCRA 246, May 22, 1992; Pingol v. Court of Appeals, 226 SCRA 118, September 6, 1993; Dignos v. Court of Appeals, 158 SCRA 375, February 29, 1998; Taguba v. De Leon, 132 SCRA 722, October 23, 1984.
- [13] See Rillo v. Court of Appeals, 274 SCRA 461, June 19, 1997; Roque v. Lapuz, supra.
- [14] Supra.
- [15] Article 1306, Civil Code; Philippine Telegraph and Telephone Company v. NLRC, 272 SCRA 596, May 23, 1997; Banana Growers Collective at Puyod Farms v. NLRC, 276 SCRA 544, July 31, 1997; Cha v. Court of Appeals, 277 SCRA 690, August 18, 1997.
- [16] Pangilinan v. Court of Appeals, 279 SCRA 590, September 29, 1997, per Torres, J.
- [17] Luzon Brokerage Co., Inc. v. Maritime Building Co., Inc., supra; citing Manila Racing Club v. Manila Jockey Club, 69 Phil. 57, October 28, 1939.
- [18] CA Decision, pp. 16, 18; rollo, pp. 45, 47.
- [19] RTC Decision, p. 10; rollo, p. 69.
- [20] "Art. 1256. If the creditor to whom tender of payment has been made refuses without just cause to accept it, the debtor shall be released from responsibility by the consignment of the thing or sum due. xxx.
- Art. 1257. In order that the consignment of the thing due may release the obligor, it must first be announced to the persons interested in the fulfillment of the obligation. xxx
- Art. 1258. Consignment shall be made by depositing the thing due at the disposal of judicial authority, before whom the tender of payment shall be proved, in a proper case, and the announcement of the consignment in other cases. xxx"
- [21] CA rollo, p. 41.
- [22] "An Act to Provide Protection to Buyers of Real Estate on Installment Payments."

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